Navin Fluorine International

On track for expansion

We visited Navin Fluorine International's (NFIL) Dewas, Indore plant, which currently houses three cGMP facilities, with a fourth under construction. The INR 2.9bn investment in cGMP4 is set to help NFIL achieve its ambitious USD 100mn revenue target by FY27. In total, an INR 14bn capex is underway across various segments, supporting growth through FY27 and beyond. We maintain our BUY rating on NFIL, with a target price of INR 4,044, supported by (1) capacity expansion in the HPP segment, (2) the upcoming commissioning of a dedicated agro-intermediate plant, expected to contribute to revenue from H2FY25, and (3) a robust product pipeline in the CDMO segment.

Project Nectar (fluoro speciality intermediate for an agrochemical MNC)

The mechanical commissioning of the plant is nearly complete, and the company is now in the final stages of the process. This phase may require revisiting some equipment for fine-tuning. Management is confident that the commissioning will be fully completed by the end of October, with commercial production set to commence thereafter.

The global market size for this product ranges between 4,000 to 5,000 tonnes, with NFIL's plant having a capacity that meets 50% of the existing global demand. Currently, only a Western and a Chinese player are manufacturing this product, and the innovator is planning to relocate its operations. At this plant, half of the capacity is dedicated to a client, while the other half is non-dedicated. The company has already secured firm orders for the dedicated capacity for 2025, with these orders locked in at a contract price.

NFIL envisages a peak revenue from this plant in two years. In the first year, it intends for the majority of sales to be associated with the dedicated portion of the plant. The company will need further production as a qualification quantity, which will yield revenues in the following year. For the non-dedicated part, the company will be exposed to a price impact. Its strategy outlines that it would like to maximise capacity and protect or increase absolute EBITDA and is ready to compromise the percentage of EBITDA if needed.

NFIL is facing challenges on two fronts. One is the competition from Chinese suppliers and the second is competition that it is facing indirectly because its customers are facing Chinese competition in their agro business. Management believes that the aggressive pricing policies driven by the geopolitical situation, stimulus measures, and financial support to Chinese competitors are temporary. However, maintaining strong relationships with customers remains crucial. Despite the challenges, it has collaborated with its partner on various strategies to optimise capacity utilisation and benefit from related cost efficiencies. These efforts, along with other cost-saving initiatives, have led to positive developments. Over the past few months, a solid pipeline has emerged, and the company expects this to help fully utilise its capacities, going forward.

BUY

CMP *(as on 30 Sept 2024)*	**INR 3,441**
Target Price	**INR 4,044**
NIFTY	**25,811**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 4,054	INR 4,044
EPS %	**FY24E**	**FY25E**
	-9.4%	-3.7%

KEY STOCK DATA	
Bloomberg code	NFIL IN
No. of Shares (mn)	50
MCap (INR bn) / ($ mn)	171/2,036
6m avg traded value (INR mn)	893
52 Week high / low	INR 3,979/2,876

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	(3.7)	10.5	(8.6)
Relative (%)	(10.4)	(4.0)	(36.6)

SHAREHOLDING PATTERN (%)

	Mar-24	**June-24**
Promoters	28.81	28.80
FIs & Local MFs	27.41	27.41
FPIs	18.02	18.02
Public & Others	25.77	25.77
Pledged Shares	3.15	3.15

Source : BSE

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cGMP4 project to help reach an intended revenue of USD100mn from CDMO

At the Dewas facility, the company has three cGMP4 running plants with capacities of 10kl, 60kl, and 150kl and construction for a fourth plant of 200kl capacity is underway. The cGMP4 plant is being built in two phases with a total investment of INR2.88bn. The board approval is in place for the entire project, but the management is executing the project in two phases. The first phase of INR1.6bn is expected to be commissioned by October 2025. Post that, product qualification will start, which should take 2-3 months. In Phase I, there will be 16 to 17 reactors while the total number of reactors will be around 33 in cGMP4. The Dewas site can further accommodate an investment of INR6bn or equivalent to two cGMP4 plant-size assets.

Phase I of the cGMP4 plant will be used to produce two products for a global pharmaceutical company. The company will manufacture five products of which three will be used as a raw material. Therefore, though there are five products, two products are sold. For cGMP phase II, the company is working on four to five other new molecules which are at stage III trials. These customers are from the USA, UK and Europe.

As a strategy for cGMP molecules, the company is targeting molecules with a revenue potential of USD1bn in therapeutic areas, which are chronic and promising like respiratory, oncology, neurology, and cardiovascular. The company's aspiration to reach USD100mn by FY27 and the cGMP4 will pave the way for it to unlock this revenue potential.

In CDMO, the company shall maintain higher margins owing to operating leverage. The management is confident that the shift from early-stage production to late-stage commercial production may not lower the margins. Because operating leverage will play out with the start of commercial-scale orders.

Ongoing capex programme of INR14bn

Currently, a total capex of INR14bn is under execution. INR5.4bn of capex is allocated for an agro intermediate (commissioning by October 2024), while the Anhydrous Hydrogen Fluoride (AHF) plant of 40,000 tons per annum capacity at Dahej has received an investment of INR4.5bn (commissioning by March 2025). Furthermore, the company is incurring a capex of INR0.84bn to set up the R32 plant at Surat (commissioning by February 2025) and INR2.9bn of the project is under implementation at Dewas for setting up the cGMP4 plant. All these projects shall support growth until FY27 and beyond.

The company will have a clear picture by the middle of next year of whether there will be new investments beyond that. Also, the company is looking to invest in a way that is strategically fit and sustainable over the next ten years.

Marching towards an EBITDA margin of 25%

NFIL has the intent to achieve an EBITDA margin of 25%. All three verticals have growth in the coming years. In the HPP, the upside is coming from R32. The next year will be a full-year operation compared to this year being a partial year. Also, there will be capacity addition by the end of FY25. Thus, next year will have two R32s with full capacities. Besides, the AHF plant will be commissioned in Q4FY25.

The growth in CDMO will be driven by the cGMP4 plant. The company has already signed a contract with a pharmaceutical company for two molecules and working on 4-5 molecules which are at stage III trials, at least one of which it expects will be commercialised in the coming two years. Improvement in utilisation of HPP and increasing revenue from the CDMO vertical shall give visibility on reaching 25% and beyond probably by next year and onwards. Operating leverage coupled with a change in product mix will help the company march towards a higher margin.

Chinese competition and BIOSECURE Act by the USA

The NFIL management believes that global players are looking for risk mitigation against China. They are ready to pay some premium but the prices should be closer to prices offered by Chinese manufacturers. To get there, the companies should invest in R&D, innovation, lead management, manufacturing excellence, and optimisation.

R&D innovation will keep the companies ahead of the curve. The companies should not be complacent with the outsourcing business model. NFIL has a state-of-the-art R&D laboratory at Surat and Dewas. It is looking for an innovation similar to its Boron Trifluoride (BF3) manufacturing process innovation. According to the management, in the next five years, there will be a rearrangement of the supply base in India.

The USA is very firm on the BIOSECURE Act. However, the management believes that it will take time for these legislations to play out. The direction is clear, and it is positive for India. Indications given by some of the customers are moving in that direction. But they cannot change course because they cannot change the suppliers for a lot of their products which have DMF filings, and which have Chinese customers. It is a positive for underway molecules as well.

NFIL is working one step forward to create a supply chain base in India. Thus, they don't rely on China for any product going to the USA. The company's endeavour for the next one to two years is to reach a stage where 70% to 80% of products will be indigenously made to be supplied to USA customers. This should give them a great advantage.

NFIL is planning to create an ecosystem for customers within the company. At the Dewas facility, 'Rambo' is the block where the company will produce one of the most complex fluorinating agents which no one is making in China and buying only from one company. So, this asset is an example of biosecurity.

AHF plant and demand outlook

NFIL is setting up an AHF plant with a 40,000 tons per annum plant capacity which will take the overall capacity to 60,000 tons per annum. It is looking at this plant as a basic infrastructure development. Currently, it consumes around 25,000 to 26,000 tons of HF per annum. It is looking to add molecules to the specialty chemical business. Also, it expects growth in the HPP business, which will require higher volumes of HF. The internal demand will also increase with the additional R32 capacity.

HF plant will also help the company keep Chinese imports at bay. The management expects globally there will be a shortage of HF capacities in 2-3 years. Thus, while growing a business in downstream molecules, the company is securing HF as well with this capacity addition. Initially, the company may do merchant sales to customers in the USA and Southeast Asia. However, its focus is on value-added products rather than selling HF in merchant sales.

NFIL has tied up with BUSS Chem Tech for technology for the AHF plant. The company is just one step away from solar-grade HF, which finds application in emerging businesses like material science, solar cell manufacturing. The plant and equipment are designed keeping in mind certain aspects that give the company advantages if those new opportunities are tapped.

R32 project and demand outlook

The R32 is going to play a big role in blending operations. Companies like Daikin are investing more than INR14bn to set up the air conditioning facility. As per industry reports, around 30 million air conditioners will be produced in India by 2030. And the gas which is going to be most defined is the R32.

Revenue from R22

There is a 30% cut in R22 from next year. Over the last one and a half years, the company has developed a customer base which uses R22 as a feedstock. The management admits that there will be a reduction in volumes, but revenue shall remain flattish. This assumption is based on historical evidence that shows that every time there is a cut in production quota, prices jump up.

Honeywell contract

It is a seven-year contract with an annual demand of 8,000 to 10,000 tonnes per annum. The company is a co-producer of this product along with the customer. The customer is certain about production requirements and accordingly, it has allocated the capacity to NFIL.

The product is used as a foaming agent or foam application in construction. In the USA, where there is variation in temperature throughout the year and across the country, the product acts as an insulating agent. Therefore, the growth of this molecule will mimic the growth in the USA construction industry.

Financials (Consolidated)

INCOME STATEMENT

(INR mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	**10,616**	**11,794**	**14,534**	**20,774**	**20,650**	**23,892**	**31,860**	**38,023**
Growth (%)	***6.6***	***11.1***	***23.2***	***42.9***	***(0.6)***	***15.7***	***33.4***	***19.3***
Material Expenses	4,838	5,374	6,656	8,960	9,354	10,470	14,837	18,134
Employee Expenses	1,308	1,417	1,815	2,494	2,858	3,009	3,367	3,704
Other Operating Expenses	1,835	1,910	2,514	3,817	4,455	4,618	5,304	5,834
EBIDTA	**2,635**	**3,093**	**3,548**	**5,503**	**3,983**	**5,794**	**8,353**	**10,350**
EBIDTA Margin (%)	*24.8*	*26.2*	*24.4*	*26.5*	*19.3*	*24.3*	*26.2*	*27.2*
Growth (%)	*20.7*	*17.4*	*14.7*	*55.1*	*(27.6)*	*45.5*	*44.2*	*23.9*
Depreciation	370	442	479	626	962	1,005	1,258	1,402
EBIT	**2,265**	**2,651**	**3,069**	**4,877**	**3,021**	**4,789**	**7,095**	**8,948**
Other Income (incl EO items)	333	946	392	357	559	755	982	1,374
Interest	20	18	19	275	746	1,029	1,121	1,051
PBT	**2,578**	**3,578**	**3,442**	**4,959**	**2,835**	**4,515**	**6,956**	**9,272**
Tax	(1,436)	1,108	812	1,207	650	1,117	1,455	1,840
PAT before share of JV	**4,014**	**2,471**	**2,631**	**3,752**	**2,185**	**3,397**	**5,502**	**7,432**
Minority Interest	-	-	-					
EO items (net of tax)	230	359	24	50	(521)	-	-	-
Share of Profits from JV/Associates	72	105	(0)	(0)	0	-	-	-
APAT	**3,855**	**2,216**	**2,606**	**3,702**	**2,706**	**3,397**	**5,502**	**7,432**
Growth (%)	***181.0***	***(42.5)***	***17.6***	***42.0***	***(26.9)***	***25.5***	***61.9***	***35.1***
AEPS	**77.8**	**44.7**	**52.6**	**74.7**	**54.6**	**68.6**	**111.1**	**150.1**
Growth (%)	**181.0**	***(42.5)***	***17.6***	**42.0**	**(26.9)**	**25.5**	**61.9**	**35.1**

Source: Company, HSIE Research

BALANCE SHEET

(INR mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS								
Share Capital	99	99	99	99	99	99	99	99
Reserves	14,023	16,240	18,343	21,750	23,728	26,276	30,402	35,976
Total Shareholders Funds	**14,122**	**16,339**	**18,442**	**21,850**	**23,827**	**26,375**	**30,501**	**36,075**
Long-term Debt	-	-	1,000	7,531	11,340	14,840	14,840	12,840
Short-term Debt	14	25	45	955	2,060	1,170	1,170	1,170
Total Debt	**14**	**25**	**1,045**	**8,487**	**13,399**	**16,010**	**16,010**	**14,010**
Deferred Taxes	(151)	207	201	347	643	593	543	493
Other LT Liabilities	391	409	372	350	489	489	489	489
Minority Interest	-	-	-	-	-	-	-	-
TOTAL SOURCES OF FUNDS	**14,376**	**16,980**	**20,060**	**31,033**	**38,359**	**43,467**	**47,544**	**51,068**
APPLICATION OF FUNDS								
Net Block	**3,860**	**3,985**	**4,156**	**15,065**	**17,363**	**27,538**	**29,511**	**30,172**
CWIP	**389**	**949**	**7,421**	**2,786**	**7,111**	**1,356**	**375**	**375**
Good will	878	878	878	878	878	878	878	878
LT Investments	3,097	1,136	1,087	2,717	2,891	3,491	4,233	5,149
LT Loans & Advances	75	81	121	3	3	3	3	3
Inventories	1,579	1,804	2,575	4,681	3,717	4,300	5,734	6,843
Debtors	2,185	2,841	3,577	5,615	5,125	5,930	7,907	9,437
Cash & Equivalents	3,513	6,284	2,000	670	5,136	4,237	4,391	4,654
Other Current Assets	559	1,019	2,041	2,872	1,555	1,629	1,709	1,789
Total Current Assets	**7,836**	**11,947**	**10,193**	**13,838**	**15,532**	**16,096**	**19,741**	**22,722**
Creditors	981	1,074	1,465	2,435	3,025	3,500	4,667	5,570
Other Current Liabilities	777	920	2,329	1,818	2,394	2,394	2,529	2,661
Total Current Liabilities	**1,758**	**1,995**	**3,794**	**4,253**	**5,419**	**5,893**	**7,197**	**8,231**
Net Current Assets	**6,078**	**9,953**	**6,398**	**9,585**	**10,114**	**10,202**	**12,545**	**14,491**
TOTAL APPLICATION OF FUNDS	14,376	16,980	20,060	31,033	38,359	43,467	47,544	51,068

Source: Company, HSIE Research

CASH FLOW STATEMENT

(INR mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	2,650	3,683	3,442	4,959	3,356	4,515	6,956	9,272
Non-operating & EO items	144	(187)	(17)	(250)	52	(0)	-	-
Adjusted PBT	2,506	3,870	3,459	5,209	3,304	4,515	6,956	9,272
Interest expenses	20	18	19	275	746	1,029	1,121	1,051
Depreciation	370	442	479	626	962	1,005	1,258	1,402
Working Capital Change	268	(1,279)	(966)	(3,679)	(600)	(987)	(2,189)	(1,684)
Tax Paid	1,436	(1,108)	(812)	(1,207)	(650)	(1,117)	(1,455)	(1,840)
OPERATING CASH FLOW (a)	**4,600**	**1,943**	**2,179**	**1,224**	**3,760**	**4,445**	**5,691**	**8,201**
Capex	(1,362)	(1,127)	(7,122)	(6,900)	(7,585)	(5,425)	(2,250)	(2,063)
Free cash flow (FCF)	3,238	816	(4,943)	(5,676)	(3,825)	(980)	3,441	6,138
Investments	1,124	1,144	17	24	43	(59)	(65)	(72)
Others	(1,446)	1,190	45	(1,493)	113	(591)	(726)	(895)
INVESTING CASH FLOW (b)	**(1,685)**	**1,208**	**(7,060)**	**(8,370)**	**(7,430)**	**(6,075)**	**(3,041)**	**(3,029)**
Debt Issuance/(Repaid)	(27)	11	1,020	7,442	4,913	2,611	-	(2,000)
Interest Expenses	(20)	(18)	(19)	(275)	(746)	(1,029)	(1,121)	(1,051)
FCFE	3,191	809	(3,942)	1,490	342	601	2,321	3,088
Dividend	(545)	(545)	(545)	(594)	(677)	(849)	(1,375)	(1,858)
Others	144	2	(55)	(36)	106	-	-	-
FINANCING CASH FLOW (c)	**(448)**	**(550)**	**400**	**6,536**	**3,596**	**732**	**(2,496)**	**(4,909)**
NET CASH FLOW (a+b+c)	**2,468**	**2,601**	**(4,480)**	**(610)**	**(73)**	**(898)**	**154**	**263**
EO Items, Others	-	-	-	-	-	-	-	-
Closing Cash & Equivalents	**2,837**	**5,439**	**958**	**348**	**275**	**(623)**	**(469)**	**(207)**

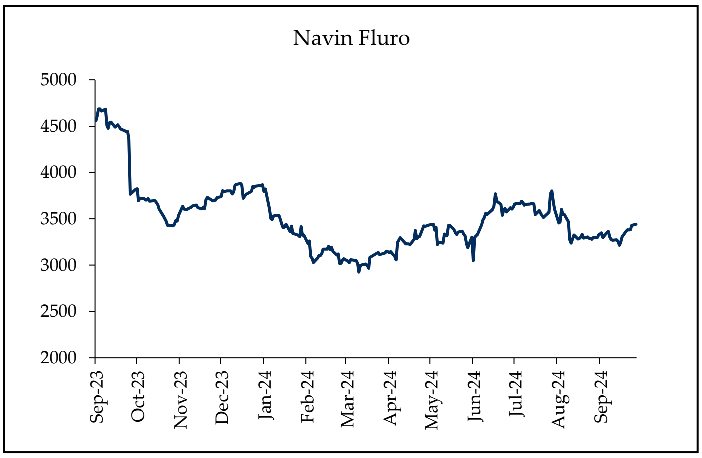
Source: Company, HSIE Research

KEY RATIOS

	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)								
GPM	54.4	54.4	54.2	56.9	54.7	56.2	53.4	52.3
EBITDA Margin	24.8	26.2	24.4	26.5	19.3	24.3	26.2	27.2
EBIT Margin	21.3	22.5	21.1	23.5	14.6	20.0	22.3	23.5
APAT Margin	36.3	18.8	17.9	17.8	13.1	14.2	17.3	19.5
RoE	31.0	14.6	15.0	18.4	11.8	13.5	19.3	22.3
RoIC	44.5	18.6	24.4	19.7	10.9	11.5	14.2	16.4
RoCE	30.2	14.2	14.2	15.3	9.5	10.2	14.0	16.8
EFFICIENCY								
Tax Rate (%)	(55.7)	31.0	23.6	24.3	19.4	24.7	20.9	19.8
Asset Turnover (x)	3.2	3.0	3.6	2.2	1.3	1.1	1.1	1.3
Inventory (days)	54	56	65	82	66	66	66	66
Debtors (days)	75	88	90	99	91	91	91	91
Other Current Assets (days)	19	32	51	50	27	25	20	17
Payables (days)	34	33	37	43	53	53	53	53
Other Current Liab & Prov (days)	27	26	58	32	42	37	29	26
Cash Conversion Cycle (days)	88	116	110	157	88	91	93	94
Net Debt/EBITDA (x)	0.0	0.0	0.3	1.5	3.4	2.8	1.9	1.4
Net D/E	(0.2)	(0.4)	(0.1)	0.4	0.3	0.4	0.4	0.3
Interest Coverage	129.6	187.2	182.2	19.0	4.8	5.4	7.2	9.8
PER SHARE DATA								
EPS (Rs/sh)	77.8	44.7	52.6	74.7	54.6	68.6	111.1	150.1
CEPS (Rs/sh)	85.3	53.7	62.3	87.4	74.1	88.9	136.5	178.4
DPS (Rs/sh)	11.0	11.0	11.0	12.0	13.7	17.1	27.8	37.5
BV (Rs/sh)	285.1	329.9	372.4	441.2	481.1	532.5	615.9	728.4
VALUATION								
P/E	44.1	76.6	65.2	45.9	62.8	50.0	30.9	22.9
P/BV	40.2	63.9	55.0	39.2	46.3	38.6	25.1	19.2
EV/EBITDA	12.0	10.4	9.2	7.8	7.1	6.4	5.6	4.7
OCF/EV (%)	63.1	52.9	47.6	32.3	44.7	31.3	21.7	17.3
FCF/EV (%)	15.7	13.9	11.6	8.6	8.6	7.6	5.7	4.7
FCFE/MCAP (%)	2.8	1.2	1.3	0.7	2.1	2.4	3.1	4.6
Dividend Yield (%)	1.9	0.5	(2.9)	(3.2)	(2.1)	(0.5)	1.9	3.4

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

BUY:	>+15% return potential
ADD:	+5% to +15% return potential
REDUCE:	-10% to +5% return potential
SELL:	> 10% Downside return potential

Disclosure:
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